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Perspectives - WeWork

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THE ROOFTOPS PROJECT

Photo: WeWork



Perspectives

WeWork

While the concept of executive office suites has existed for decades, in recent years innovations have emerged seeking to provide a broader range of services and a sense of community combined with affordability and flexibility. Stephen Caracappa and Professor James Hagy of The Rooftops Project talk with WeWork executives **David Fano** and **Mark Lapidus** (Class of 2012) about the company's business model, space concept and design, and the applications for not-for-profit organizations.

RTP: Only a few years ago, you were getting your law degree at New York Law School. How did you find your way to WeWork and to the position you hold now?

Mark: I joined WeWork during my last year of law school, in March of 2012. I've been with the company since. I head up real estate for the company globally. Before this, my background was in acquisition and development. I worked for a private equity real estate group and a real estate investment trust before that. My mission here is to pick the best locations globally, in what now is nearly every major city in the world and will eventually be the larger MSAs [metropolitan statistical areas].

RTP: David, what is your role at WeWork?

David: I head up our product organization. It's a bit of a play on words. In most companies, I might be a "Chief Development Officer." We are trying to productize the real estate process so companies don't need to deal with that pain. [Real estate] is such a fragmented and disjointed process. We package that so companies of all sizes can buy it off the shelf. So what falls to me is the real estate, mostly deferring to Mark, and the design and development:

interior design, architecture, engineering, BIM, which is building information management, art and graphics, and then development. Development includes the project management, construction management, logistics, FF&E [furniture, fixtures, and equipment], OS&E [operational strategy and effectiveness], cost estimating, things like that.

RTP: Tell us a little bit about the WeWork business model. What are the levels of service for your members?

Mark: The company started seven years ago, catering to small business entrepreneurs who freelance, primarily companies with up to eight employees or people working together. That has turned into part of the sharing economy, which also started with companies like Uber and AirBnB, with the millennial generation.

That has morphed into a platform to connect business—of every size and shape—to connect globally.

We're not a real estate company, we're not a technology company, we're not a construction company, we're not a design company, we're not a graphic design company, we're not a service company. We literally try to be all these things to the companies that work with us. We are here to help our members do business. You see it everywhere in our buildings ... we are here to help our members do what they love! Or, at the very least, try to eliminate the headaches that come with doing business.

Most business owners, and most not-for-profits and charities, are really good at or really keen on one or two things; everything else is not their area of expertise—why should it be? You think about the time and effort that goes into trying to find office space and sign a lease that both parties are comfortable with ... there is all of this stuff that goes into real estate deals: the management requirements, and construction, and legal, and architects and engineers, and signing a 15-year commitment, and balance sheet worries, and security deposits, and all the rest. We take all that off their plates and shoulder it ourselves. WeWork is a turn-key solution. It can be everything



from the physical space requirements, to conference rooms, to printing, accounting, credit card processing, not to mention the digital capabilities that come with our Member Network and Services Store.

RTP: How many locations do you have?

Mark: 130 locations across 39 cities.

RTP: The concept of “serviced suites” has been around for a couple of decades. How is your model different? It’s more than just showing up and sitting at a desk?

David: That’s the least of it. There are lots of really amazing companies in really amazing buildings, and the truth is they don’t even know each other. We are trying to build a company that acts as the connective tissue between all the companies within a building and then focus on building that community. We started with small companies, but now it’s starting to be companies of all sizes. And part of what’s really exciting is seeing larger companies benefit from this network of small companies and small companies benefit from having these large companies as customers. Being able to be in the space together is extremely powerful. And it’s just the beginning of the potential of what we can do.

Mark: And I think the biggest differentiating factor between us and our predecessors is that they were landlords. At the end of the day, their business model is based in real estate. We’re the exact opposite. We’re using real estate as a platform to deliver everything else: to make people’s work lives easier, better, more socially functional by helping them make connections, develop a network, and build a community. Real estate is just a tiny piece of that, a tool like anything else.

David: I tell people real estate is to us what aluminum is to Apple. It’s just one of the commodities we need to make our product.

RTP: So what should an organization, not-for-profit or otherwise, consider when deciding whether this model is a good fit for them?

David: Do they have the mindset to make the most of what a WeWork office experience can bring to them and their company? They may realize they need a physical space to do work. But are they willing and able to take advantage of what else is on offer, to expand their networks and build their business?

For not-for-profits specifically, the same principles apply ... who’s in their community that can help them? Are there service providers in the building that are looking to provide pro bono work because they believe in their mission? Are there other like-minded organizations in the building or even B-corporations? It’s not necessarily just 501(c)(3)s. The geography [can be important]. Is there a network in that area? Washington, D.C. is a big 501(c)(3) market, and a lot of our buildings there have a high percentage of not-for-profits.

Mark: Not-for-profits are built around outreach. Our global community is more than 100,000 members today on five continents. By being a WeWork member though our digital app, they have access to that from day one. We

pride ourselves on the fact that our members want to be part of something larger than their business or their not-for-profit. That’s a huge draw for a lot of our members.

RTP: Mark, your background and your focus are on the real estate aspect. How do you see the WeWork model compared to other occupancy solutions not-for-profits might consider?

Mark: The advantage of our model—for any business or charity—is its flexibility. There are no balance sheet requirements, no capital requirements. They don’t have to worry about committing to a space for 15 years and deciding how many employees they need. The ability to expand and grow, or to contract, on a month-to-month basis is probably one of the most important things not-for-profits can get at WeWork.

RTP: Is there a commitment for your members to use the space? Can they come and go as they please?

David: We have a couple of different product offerings. We have “hot desks,” in which you can just pay for a basic membership [starting at \$50 per month] and then pay on a daily basis a la carte for what you want to use. If you use the space more, then it’s worth it to upgrade. You can get a dedicated desk or a private office, and it goes from there. Like Mark said, we’re starting to work with larger organizations; we have companies with 500-plus employees in the network today. We will ask for a longer commitment from those larger companies, but still not 15 years.

RTP: What is typical for your not-for-profit members?

Mark: We have not-for-profits globally that are members, in sizes from a single person who’s just donating his or her time and whose retirement is dedicated to a cause, to large foundations. We can service them simultaneously. A majority of not-for-profits have budgets that are year-to-year. So the flexibility that we provide is really appealing to them.

RTP: Are there savings in staffing for your members in the collaborative workspace model?

David: There is a Community Manager at each location. Then, we provide a receptionist. We’ll receive your guests, your mail and packages, and clean your office. We [use] technology to ensure our members’ building experience is smooth and efficient. We have a kiosk downstairs [in the building lobby]. You just put in who you are coming to see, and that sends a text message to the person. Once they come in, they are received by the person [they are visiting]. We provide internet, power, printer paper, paper clips, coffee, beer ... whatever you need to get your work done! Security is tight too, with restricted key card access on demand.

RTP: And that’s included in the membership fee?

Mark: Yes, all included. The experience for the guest is as important as it is for the members, because at the end of the day, a happy guest means a happy member and, obviously, it’s great marketing for us.



RTP: It sounds like some of your members are established companies, but others are start-ups or even individuals. Is there an application process?

Mark: There's no application process. WeWork was founded on being as inclusive as possible. Our model is designed to be as simple as possible for our members to use, regardless of the size of their company. Obviously, as entrepreneurs ourselves and, as a start up, we apply that mindset to the member experience ... that's important to us.

RTP: Here in your midtown Manhattan location, in addition to open-desk seating, there are glassed-in cubicles, essentially dedicated office spaces. How do you think about design, and how is that important to the experience?

David: One of the co-founders of the company is an architect. The design and space planning is in our DNA. There's a reason why we don't outsource that. The team I manage is close to 300 people. We have 40 architects and 60 interior designers in-house. That's all done here.

Mark: Yeah, there's a reason why everything is designed the way it is. It's important not to underestimate the importance of design in our product. It is part of the reason why it's all glass, which is from the early days, is again because we want people to feel like they're part of something much larger. You may feel like you're a single person in an office, but you stand up and you're surrounded by this energy from everybody working around. It also allows light to penetrate in to the floor plate.

RTP: Are there other ways in which you see an advantage to your model compared to not-for-profits renting their own space from a traditional landlord?

Mark: The design, the vibe and energy that's created here, are amazing, especially for a not-for-profit. But I would argue that it is more than the look and feel of the space. It is the opportunity to network with companies, potential donors, and other not-for-profits, not just physically in your immediate vicinity but digitally through our app. It's a ready-made network for that charity to exploit, judiciously, of course; we don't want to be spamming our members all the time. But it's a great networking tool.

RTP: Do you see not-for-profit members making a different contribution to the WeWork community experience?

Mark: Yes. They provide a unique twist. I think it's great for our for-profit companies to be centered around these not-for-profits. If we're all about collaboration and community, not-for-profits always have a different spin on real-world business issues. Putting them together with for-profit companies is great for both sides. We love working with not-for-profits, and we're very keen on trying to help them as much as we can.

RTP: If I ran an organization that had clients or programs across multiple geographic areas within a metropolitan market—New York City, for example—is there a way to be a member and take advantage of more than one WeWork location as my staff moves around the city?

David: Yes. If you take a "dedicated office," you get a certain amount of credits to work in other locations. A member can buy additional virtual memberships,

too. This also works for conference rooms. They are reserved, all through our app. You get "x" number of credits per seat. And different size conference areas cost different credits. Then if you go over, it's like a cellphone where you get charged overages. But most people don't go over.

RTP: And then do I settle my tab monthly?

David: Yes, monthly. It's all there on the app.

RTP: People tend to think of a shared or collaborative space as a solution for start-ups or individuals. But you noted that your clients include major companies too. So what are the benefits for them? Why are those companies coming?

David: All capital costs go away when it comes to real estate. It's that and the flexibility on the commitments on the leases, the overhead for services. The easy no-brainer is the satellite office. They don't want or need a manager for a five-person office, or even a 20- or 30-person office. They don't want to deal with hiring a local cleaning company. That's more vendors to set up. How do you process those invoices? They don't want to think about that. When we get feedback, one of the big things is that they don't have to deal with that stuff. Like our slogan says, we want people to "do what they love." Most of the time that doesn't involve coordinating cleaning. [There is laughter among the group.] There are also economies of scale. We're cleaning the entire floor. If each of those companies needed to hire their own cleaners, I'm sure that cost would be much greater if it wasn't being shared.

Mark: With the new FASB accounting [the Financial Standards Accounting Board rules], we also [help] companies who want to take real estate—those 15-year leases—off their balance sheet. We can provide them with short-term flexibility, while giving them the ability to stay long-term. I think that as we grow our enterprise sales, that will be one of the large driving factors.

RTP: Earlier, you mentioned Washington, D.C. as a key not-for-profit area. Do you see other geographic centers where not-for-profit membership is more prominent?

Mark: All that I can say is that historically, from a real estate prospective, not-for-profits have been pushed to the outskirts of cities. But most of that is because of rent constraints. So we give them the ability enter into the core, Class A markets.

RTP: When you look for new locations in your city markets, what is important? Transportation?

Mark: Absolutely. Transportation hubs are really important in all major cities: Chicago, Boston, Shanghai. In a market like New York where nobody drives, you need to be on top of transportation. Los Angeles is a driving city, so transportation matters a little less. But parking is really important. Restaurants, shops, and streetscapes matter more in a market like that. A lot of these decisions are market by market.

RTP: Do the needs and expectations of your members outside the U.S. differ?



David: Yes, culturally. We try to do our cultural due diligence. Sometimes we learn the hard way. We put drip coffee in the United Kingdom, and they wanted nothing to do with it. So in came espresso machines.

Mark: In China, even design and architecture is a big thing. How you lay out your offices and how the desks face each other are big things. We realized in our first location that they can't sit back-to-back; they sit face-to-face. We're structuring our build-outs with the desks facing each other.

RTP: Is WeWork "cool" in a market like China? Does this matter?

David: I think people definitely appreciate the brand, as well as who we are and what we stand for.

RTP: Are there other examples of how you encourage not-for-profit members?

David: We recently launched a very successful initiative called Mission Possible. Mission-driven for-profit and not-for-profit companies get sponsored space by WeWork. Basically, we graduate them into paying full price over the course of 12 months.

RTP: And do you seek them out? Or do they seek you out?

David: They apply and tell us about their mission. Then we have to approve them. It is available in certain buildings. It's been a really powerful initiative for us, and it's something that we're really excited about. We want to make sure organizations [like those in your audience] know that.



Stephen Caracappa (Class of 2018) is a second-year student with a passion for real estate. At the age of 19, Stephen purchased and renovated his first rental property while attending Stetson University in Florida. Since then, he has purchased and sold several properties rented to college students. Stephen returned home to New York to attend New York Law School, where he focuses on real estate studies and has begun purchasing and extensively renovating properties in the New York area. He is a proud member of The Rooftops Conference, where he hopes his personal experiences can help not-for-profits navigate real estate challenges in New York City.



James Hagy is Distinguished Adjunct Professor of Law at New York Law School. He also founded and directs The Rooftops Project at New York Law School's Center for Real Estate Studies. More information about The Rooftops Project and Professor Hagy may be found at www.nyls.edu/rooftops.

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